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Mayor

Being revised for the CPC, partly in response to
changes made in project budget(s) on 5 January 2015.

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MEMORANDUM

To: Planning and Development Board

From: Eve Tapper, Acting Associate Director, Planning and Development Department
Robert Muollo, Jr. Interim Housing Programs Manager

Cc: Josephine McNeil, Executive Director, CAN-DO, Inc.

Date: January 2, 2015

Re: 54 Taft Avenue Affordable Housing Proposal

1. Executive Summary

The Sponsor, Citizens for Affordable Housing in Newton Development Organization (CAN-DO, Inc.), is proposing to create two units of affordable rental housing through acquisition and rehabilitation of an existing single-family house and an addition of a 1,100 square foot unit, located at 54 Taft Avenue, West Newton. The project would consist of one 2-BR and one 3-BR unit with a supportive services component. One unit will target a family at-risk of homelessness with a supportive services component. One unit will be affordable to households earning at or below 80% of Area Median Income (AMI) and one affordable to a household earning at or below 50% of AMI. The budgeted total development cost is \$1,144,029.



The Sponsor is seeking \$599,029 in Community Preservation Act (CPA) funding, \$360,000 in federal Community Development Block Grant (CDBG) funding and \$125,000 in HOME Investment Partnerships Program (HOME) funding, for a total of \$1,069,029 in publicly-controlled money. This is an increase of \$120,000 from the original request based on the

Newton Housing Partnership's (NHP) recommendation to remove all debt from the budget. This funding request represents 41% of available CDBG funding and 98% of HOME funding. The Sponsor will also be seeking a Comprehensive Permit through G.L. Chapter 40B. The Housing and Community Development Division (the "Division") has reviewed the One-Stop Application submitted by the Sponsor on November 5, 2014 and a revised proposal on December 12, 2014.

The Department is concerned about the high subsidy per unit. If approved, this project will consist of the highest per-unit cost approved to date at \$534,514. While we understand that much of the increased cost is due to Newton's expensive housing market, we also project that this situation is not likely to change in the future. **Continuing to fund two-unit projects that use the acquisition and rehabilitation model that is almost solely reliant on limited City-controlled federal resources with no private debt is unsustainable in this housing market. In addition, the Administration's stated goal of having 10% of the City's housing stock meet the State's affordability guidelines by 2021 cannot be accomplished at this rate and at this cost.**

2. Project Description

The property is an existing 1,470 sq. ft. single-family house built in 1916 with a two-car driveway. It is located on a 5,804 sq. ft. lot in an SR3 zone. The house is a two-story colonial-style with wood shingles, concrete foundation and an asphalt-shingled roof. The existing unit has seven rooms, three bedrooms and one bathroom. The unit also has an enclosed 176 square foot rear porch, which will be demolished in order to add the second unit. The addition consists of a kitchen, dining and living room on the first floor, with two bedrooms and a bathroom on the second floor. The proposal includes the following unit mix and characteristics:

Unit	Affordability Level	Proposed Rent	# of Bedrooms	# of Baths	Living type	Gross Living Area
1	Up to 80% AMI	\$1,790	3	1	Single-family attached, two story	1,470 square feet (existing)
2	Up to 50% AMI	\$948	2	1	Single-family attached, two-story	1,100 square feet (proposed)

3. Newton Housing Partnership Recommendation

At their meetings on November 12th and December 10th, the Newton Housing Partnership expressed concern about the Sponsor's future financial stability. The Partnership noted the under-performance of the Sponsor's rental portfolio (which shows a \$26,000 loss); its low replacement reserve levels and; its current organizational operating deficit of \$559. At the December 10th meeting, the Sponsor's accountant noted that existing property debt is the main reason that the portfolio is not generating positive cash flow. The Sponsor also noted that the high cost of turnovers have also created a loss of income.

The Partnership acknowledged that development at this scale should not assume debt to be sustainable and recommended that this project carry no debt. In response to staff's concern that the original project does not meet any of the Consolidated Plan's criteria for receiving a

deeper public subsidy, the NHP recommended that the savings on debt service fund a supportive services component for the tenants to meet a priority need in the Consolidated Plan. NHP also suggested increasing the vacancy rate from 5 to 10% to offset the high costs of turnover. While staff agrees that adding supportive services aligns the project more closely with the Consolidated Plan, it does not solve the Partnership's original issue of removing the debt burden to increase the project's sustainability or the portfolio's health. With the current assumptions, the project is projected to gain \$331 more in cash flow over 10 years than if it carried debt.

4. Organizational Model and Affordable Housing Goals

The Partnership acknowledged that projects of this size and affordability are less likely to be sustainable with debt. However, underwriting one project with zero debt will not change the portfolio's performance. Therefore, it is clear that to sustain the portfolio, the City will have to underwrite each future project at this scale in the same way. Staff is concerned that approving this project will set a precedent to do so and will retain a model that is no longer cost-effective given the real estate market and limited funding resources. Perhaps more importantly, the model is out of scale with the Mayor's goal of meeting the 10% affordable housing mandate by 2021, which requires over 800 additional affordable units. It is vital for the City to leverage its limited federal funding with its other regulatory and financial tools to implement this objective. A model that provides two affordable housing units at \$534,514 each is not a sufficient means to this end.

Staff is also concerned about the Sponsor's future plans given its current financial situation. The Sponsor requires developer fees to sustain its operations. Although developer fees are necessary revenue for organizations creating small-scale affordable housing, the Sponsor's budget in this case almost requires a developer's fee each year just to balance. As previously acknowledged, in the current real estate market, doing at least one project per year may be difficult especially if the budget depends on it. The Sponsor has not sufficiently indicated to City staff or the Newton Housing Partnership how the organization will adapt if it is unable to find a property. With an underperforming portfolio and increasing real estate prices, this development model will continue to perpetuate its reliance on Newton-controlled subsidies to maintain operations. In addition, with limited resources to meet the goal of 10% by 2021, City-controlled funds may not be as readily available for small scale, expensive projects as the one proposed.

5. Rent and Affordability

The project aims to serve one low-income household earning at or below 50% of AMI and one moderate-income household, earning at or below 80% of AMI. The proposed rent structure assumes that tenants will pay for utilities. The rents are underwritten to be affordable to households not receiving rental assistance (e.g., a Section 8 housing voucher), as these subsidies are scarce and we cannot assume that each tenant will have one. Because the Sponsor is seeking HOME funds, at least one unit must charge no more than the HOME rent limit. This is the 2-bedroom unit. However, the 3 bedroom unit rent does not comply with the

City's Affordable Rent Policy, which requires that *"monthly rents charged to tenants cannot exceed 35 percent (if cost of rent only) of the adjusted monthly income of a household whose gross income is 70 percent of the Boston AMI."* The current rent is lower than the median market rent of \$2,650, but it is about \$282 higher than allowed by City policy.¹

	Household Size	Gross Rent	(-) Utility Allowance	(=) Net Rent
3 Bedroom	4 person	\$2,003 ²	\$203	\$1,790
2 Bedroom	3 person	\$1,101 (HOME)	\$153	\$948

6. Design and Construction

6.A. Site Plans & Zoning / Permitting

The proposed construction would not meet the dimensional requirements for a special permit for single-family attached dwellings in an SR-3 zone. The Sponsor will need zoning relief in the form of a comprehensive permit under Massachusetts General Law Chapter 40B. A Local Initiative Program application has not yet been submitted to Staff.

6.B. Proposed Rehabilitation

The Division's Housing Rehabilitation/Construction Manager has reviewed the inspection report dated 10/28/14, an initial lead inspection report dated 10/29/14 and the preliminary scope of work submitted by the project architect. The estimated rehabilitation cost is approximately \$70,000, which includes deleading. The scope of work includes:

- Replacing front and side stairs and railing
- Deleading (windows and doors)
- Repairing basement stairs, joist hangers, bathroom fan, porch columns
- Chimney removal and new framing
- Roof replacement
- Insulation of building envelope
- Replacing rotted wood and painting
- Tree removal
- Replacing retaining wall and stairs
- Landscaping (create new walkway, seed, loam, plantings)
- Tree removal
- Demolition of an existing rear porch
- Excavating a foundation for the addition.
- Repairing 150' retaining wall running along the front of the property
- Replacing existing sewer line

¹ As of September, 2014. <http://www.zillow.com/newton-ma/home-values/>

² 110% of 3-Bedroom HUD 2015 Fair Market Rent for Newton, MA



Roof



Chimney



Rotting wood at dormer



Front stairs



Lalley column below front porch



Retaining wall



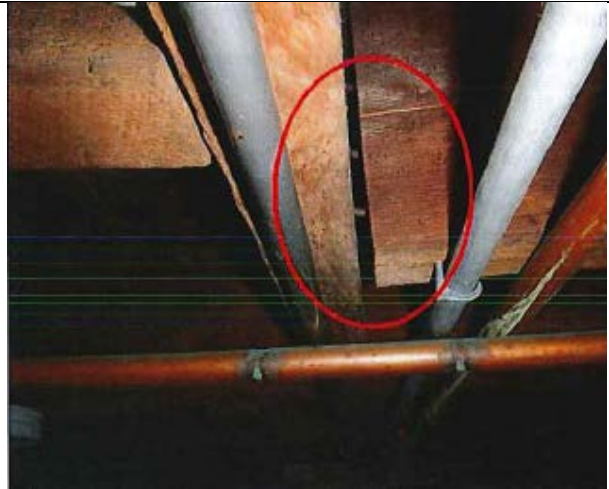
Scoping waste plumbing to determine integrity



Replacement of porch windows



Rotted wood at basement stairs



Fastened hangers needed for floor joists

The estimated rehabilitation cost is \$47/square foot. Recent projects with substantial rehabilitation have cost \$97/square foot, \$105/square foot and \$113/square foot, while projects with moderate rehabilitation have cost \$63/square foot and \$37/square foot.³

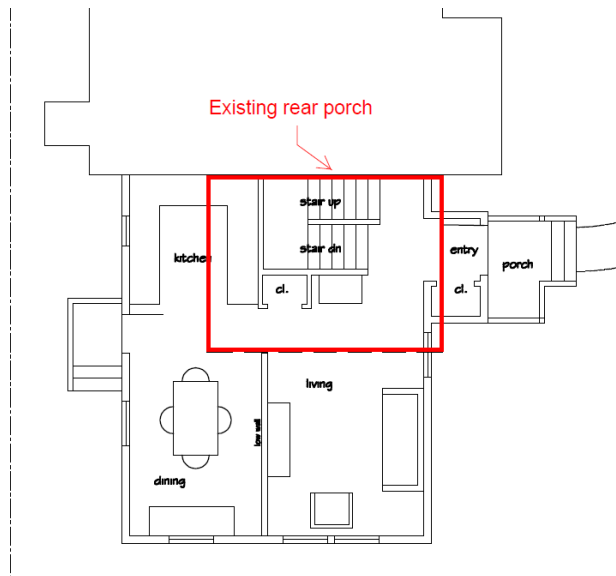
Staff believes that the scope of work consists of legitimate items that need attention now or will avoid future issues, although the sewer line replacement should be provided as an allowance if scoping determines that the pipes do not need to be replaced.

³ Total rehabilitation cost divided by gross building area. \$97/square foot - 54 Eddy Street \$105/square foot - 61 Pearl Street; \$113/square foot - existing group residence; \$63/square foot - 20-22 Falmouth Road; \$37/square foot - 2148-50 Commonwealth Avenue

6.C. Proposed New Construction

The project includes a 1,100 square foot addition off the rear of the existing property. An existing porch will be razed and replaced with the addition, which will be two-stories tall with a full basement, kitchen, dining and living room as well as two bedrooms and a bathroom on the second floor. The proposed structure would extend the building's footprint outward approximately 12' toward the rear property line and 3.5' from the side.

The estimated cost of the new construction is \$261/square foot, which is slightly higher than in-house estimates (between \$220 and \$230/square foot). Staff believes this cost includes tying in the existing structure to the new building and demolishing the existing rear porch, which would justify the higher cost per square foot.



7. Financials

The feasibility analysis is based on the Development Budget and an Operating Pro Forma and ten-year Operating Budget, both revised December 16, 2014. The projected total development cost is \$1,144,029 (\$572,015 total cost per unit and \$534,514 public subsidy per unit). As noted previously, the proposal will carry no debt, other than an acquisition bridge loan that will be repaid with Newton funds. The permanent sources consist of 93% public subsidy and the remaining 7% from foundation grants (Charlesbank Homes) and fundraising efforts with Eliot Church. The purchase price of the property is \$590,000. It was appraised at \$600,000.⁴

7.A. Subsidy Per Unit

The principal reason for the amount of public subsidy is the current market conditions, as Newton's land cost continues to increase. The median sale price for a single-family dwelling in 2014 is \$948,250, which is up from \$890,000 in 2013.⁵ The median sale price of a two-family dwelling is \$795,000 in 2014, compared to \$665,000 in 2013.⁶ Fifty-two percent of the cost is for acquisition.

The cost is further compounded by the project's scale and its affordability level; spreading the cost over two units result in a higher cost per-unit. A project with more units could potentially have a greater impact on the surrounding neighborhood, but would also substantially reduce the per-unit cost and serve more eligible households. For comparative purposes, the table below shows the total development costs, total subsidy per-unit and subsidy per-bedroom of similar projects since 2005.

⁴ Appraisal commissioned by Newton Community Preservation Committee. Appraisal dated December 17, 2014

⁵ The Warren Group <http://rers.thewarrengroup.com/sor/tssearch.asp>; calendar year 2013 and 2014 (year-to-date for 2014)

⁶ City of Newton Assessor's Department; calendar year 2013 and 2014 (year-to-date for 2014)

Project Address/ Sponsor/Year	Project Type and Scope	Affordable Units	Total Development Cost	Total Public Subsidy/Unit⁷	Total Public Subsidy/Bed
54 Taft Avenue CAN-DO 2014	Rental – Acquisition, Rehab/Construction	2	\$1,144,029	\$534,514	\$213,806
54 Eddy St. CAN-DO 2012	Rental – Acquisition and Rehab	2	\$1,115,250	\$472,625	\$189,050
61 Pearl Street CAN-DO 2010	Rental – Acquisition and Rehab	3	\$1,370,000	\$381,667	\$190,833
2148 Commonwealth Ave. CAN-DO 2009	Rental – Acquisition and Rehab	2	\$950,000	\$337,500	\$135,000
11-13 Cambria Road CAN-DO 2006	Rental – Acquisition and Rehab	2	\$1,437,511	\$315,512	\$126,205
20-22 Falmouth Street CAN-DO 2005	Rental – Acquisition and Rehab	2	\$1,178,933	\$325,601	\$130,240
163 Jackson Road CAN-DO 2005	Rental – Acquisition and Rehab	2	\$1,178,048	\$325,158	\$130,063

The Planning and Development Department does not have a per-unit subsidy limit. Instead, a project's subsidy amount is evaluated on a case-by-case basis through a federally-required subsidy layering analysis. Our goal is to provide enough financing to serve the greatest number of eligible households, to make the deal feasible and affordable to the target population and not over-subsidize the project or unduly reward those implementing it. Costs of affordable housing are a state-wide topic of interest. The Massachusetts Department of Housing and Community Development (DHCD), its quasi-public affiliates and development community members recently analyzed the development costs of affordable housing that concluded with the following "Total Residential Development Cost Limits" for 2015.⁸

- Urban Area with Large Units: \$399,000 Residential TDC/Unit
- Urban Areas with Small Units: \$379,000 Residential TDC/Unit

7.B. Developer Fee

The developer fee and overhead are projected at \$83,411, or 8% of total development costs, excluding the replacement reserve fund. The proposed fee is within the standard recommended by the National Council of State Housing Agencies of 15%.

7.C. Cash Flow

The project generates positive cash flow at a 10% vacancy rate over 10 years, although the 3-bedroom rent is higher than City policy allows. The third-party underwriting suggests reducing the supportive services and/or tax assumptions to make the project more sustainable. However, Staff feels strongly that the supportive services component is an essential component of this proposal, and is not inclined to agree to a future cut in the supportive services budget should the cash flow decreases actually materialize as projected.

⁷ Includes all HOME, CDBG and/or CPA public subsidy grants and loans

⁸ These recommendations were published in the 2015 DHCD Low Income Housing Tax Credit Qualified Allocation Plan, and apply to all rental projects funded by DHCD with any of its rental resources.

Note: Large unit projects must have an average of at least two bedrooms per unit or consist of at least 65% two or more bedroom units and 10% three or more bedroom units. All other projects are considered Small Unit projects.

8. Architectural Accessibility

8.A. Design and Construction Applicability

The City's Accessibility in Affordable Housing Guidelines encourages applicants to enhance the accessibility of their projects to the extent that it is financially feasible. The Sponsor has not proposed adding accessibility features.

9. Fair Housing and Equal Opportunity

CDBG or HOME does not require affirmative marketing for a project of this size. However, Chapter 40B will require the submittal of an affirmative marketing plan prepared in accordance the Chapter 40B Guidelines, and a description of the lottery process that will be used for the project.

10. Community Need

As stated in the City's *FY11-15 Consolidated Plan* and the *FY15 Annual Action Plan*, it is a priority objective to provide deeper subsidies in a project where the developer provides at least one of the following: 1) units that are accessible to persons with disabilities, where not required by applicable law and there is a substantiated market demand; 2) units for low-income households (at or below 50% of AMI) that do not have rental assistance; 3) units that provide permanent supportive housing to homeless persons including veterans; and 4) units for persons with special needs with accompanying support services.

This proposal creates a new affordable rental housing opportunity for one household earning up to 50% of AMI and would provide supportive services for both households. However, as noted above, with these additional benefits the project is not financially feasible over the long-term.

11. Recommendation

The Planning Department does not agree with the Newton Housing Partnership's recommendation to fund this proposal. We believe that there are too many questions such as the following:

- At what point will the portfolio be generating positive cash flow?
- What measures has the Sponsor taken to cut costs or offset losses?
- What is the Sponsor's five-year plan?
- Which agency will provide supportive services?
- Would these services be provided to any other existing projects?
- What services will be provided?
- What are the targeted outcomes and benchmarks for households receiving these services?

None of these questions has been answered to our satisfaction to give the City the confidence to allocate the majority of our limited federal resources to a project that will add to a portfolio, which is not self-sustaining.